

Grisell Memorial Hospital District No. 1

Report to the Board of Directors and Management

For the Year Ended December 31, 2018

Results of the 2018 financial statement audit, selected ratios, internal control matters and other required communications.



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May 20, 2019

Board of Directors and Management
Grisell Memorial Hospital District No. 1
Ransom, Kansas

We have completed our audit of the financial statements of Grisell Memorial Hospital District No. 1 (Hospital) as of and for the year ended December 31, 2018. This report includes communication required under auditing standards generally accepted in the United States of America as well as other matters.

Our audit plan represented an approach responsive to the assessment of risk of material misstatement in financial reporting for the Hospital. Specifically, auditing standards require us to:

- Express an opinion on the December 31, 2018, financial statements of the Hospital.
- Issue communications required under auditing standards generally accepted in the United States of America to assist those charged with governance in overseeing management's financial reporting and disclosure process.

This report also presents an overview of areas of audit emphasis, as well as other matters for the health care environment.

This communication is intended solely for the information and use of management, the Board of Directors and others within the Hospital and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

BKD, LLP



Summary of Our Audit Approach & Results

Our Approach

BKD's audit approach focuses on areas of higher risk—the unique characteristics of the Hospital's operating environment, the design effectiveness of your internal controls and your financial statement amounts and disclosures. The objective is to express an opinion on the conformity of your financial statements, in all material respects, with accounting principles generally accepted in the United States of America.

Areas of Audit Emphasis

The principal areas of audit emphasis and results were as follows:

Risk Area	Results
➡ <i>Management override of controls</i> – The risk that management may override existing and functioning accounting controls is an inherent risk to the Hospital.	➡ No matters are reportable.
➡ <i>Revenue recognition</i> – The risk that management may record revenue in the incorrect period.	➡ No matters are reportable.
➡ <i>Management estimates</i> – Estimates and judgments made by management materially impact financial statement amounts. The following financial statement areas include material estimates made by management: <ul style="list-style-type: none">• Allowance for uncollectible accounts• Allowance for contractual adjustments• Estimated amounts due from and to third-party payers	➡ No matters are reportable.

Significant Estimates

The preparation of the financial statements requires considerable judgment because some assets, liabilities, revenues and expenses are “estimated” based on management’s assumptions about future outcomes. For example, the allowance for uncollectible accounts is impacted by patients’ willingness and ability to pay. Other estimates may be dependent on assumptions related to economic or environmental conditions, regulatory reform or changes in industry trends.

Some estimates are inherently more difficult to evaluate and highly susceptible to variation because the assumptions relating to future outcomes have a higher degree of uncertainty. To the extent future outcomes are different than expected, management’s estimates are adjusted in future periods, sometimes having a significant effect on subsequent period financial statements. The following are considered to be significant estimates for the Hospital:

- **Allowance for Uncollectible Accounts** – Primary collection risks related to patient accounts receivable include uninsured patients and patient balances where the insurance payer did not pay the entire balance. Management’s estimate for allowance for uncollectible accounts is based on historical collection, payer mix and anticipated trends. Similar to third-party reimbursements, management assumptions about the economy and types of payers affect the estimation of allowance for uncollectible accounts.
- **Allowance for Contractual Adjustments (Third-party Reimbursement)** – Net operating revenues include management’s estimates of amounts to be reimbursed by third parties. Amounts received for patient billings are generally less than amounts billed. The difference between what is billed and expected to be received is recorded through contractual adjustments. Management’s process of estimating amounts to be received from third parties requires estimation based on payer classification, historical data and payer contract provisions. Estimates of third-party reimbursements also include management assumptions about uncertainties in health care reform, payer mix and state of the economy.
- **Amounts Due From and To Third-Party Payers** – The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital. Management estimates the settlement to be made from and to the Medicare program for all open cost report years.
- **Capital Asset Impairment** – The Hospital evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss.
- **Professional Liability Claims** – Professional liability claims are based on estimates of known claims and estimates for incurred but not reported claims. Management estimates the liability based on specific claim facts, historical claim reporting and actuarial assumptions. In addition to the liability, management records a receivable for the amount expected to be reimbursed by excess insurance.



Opinion & Reconciliation of Changes in Net Position

Unmodified, or “Clean,” Opinion Issued on Financial Statements

We have issued an unmodified opinion as to whether the financial statements of the Hospital, as of and for the year ended December 31, 2018, included at *Tab 1*, are fairly presented, in all material respects. As a result of our audit, we proposed adjustments that management determined were necessary to prevent the financial statements from being materially misstated. A summary of adjustments impacting the change in net position is presented below:

Change in net position, as internally reported	\$ 115,345
Adjustments	
Management proposed entries:	
None	-
Entries outsourced to BKD:	
Estimated amounts due from and to third-party payers	(690,000)
Audit adjustments:	
Accounts payable	<u>(6,706)</u>
Change in net position, per audited financial statements	<u><u>\$ (581,361)</u></u>



Key Operating Indicators and Ratios

	BKD KS CAH Median	BKD KS CAH Median	2018	2017	2016	2018-2017 % Change	2017-2016 % Change
Liquidity Ratios:							
Days cash on hand - current	29	24	49	36	75	36%	-52%
Days cash on hand - all sources	53	42	131	124	183	6%	-32%
Days revenue in patient accounts receivable, net	54	52	61	40	43	53%	-7%
Current ratio	2.34	2.03	2.46	4.63	5.57	-47%	-17%
Average payment period of accounts payable	41	40	16	16	14	1%	16%
Capital/Debt Ratios:							
Average age of plant	14	15	13	14	15	-4%	-10%
Long-term debt to capitalization	29%	28%	16%	5%	6%	11%	-1%
Operating and Performance Ratios:							
Gross patient revenue			\$ 3,376,397	\$ 2,895,335	\$ 3,052,819	17%	-5%
Contractual adjustments			\$ 1,234,751	\$ 1,322,558	\$ 919,227	-7%	44%
Charity care and administrative discounts			\$ (1,947)	\$ (26,753)	\$ (51,329)	-93%	-48%
Provision for uncollectible accounts			\$ (110,738)	\$ 22,544	\$ 55,898	-591%	-60%
Net patient revenue			\$ 4,498,463	\$ 4,213,684	\$ 3,976,615	7%	6%
Contractual adjustments as a % of gross patient revenue			-37%	-46%	-30%	9%	-16%
Charity care & admin discounts as a % of gross patient revenue			0%	1%	2%	-1%	-1%
Provision for uncollectible accounts as a % of gross patient revenue			3%	-1%	-2%	4%	1%
Net patient revenue as a % of gross patient revenue			133%	146%	130%	-12%	15%



Key Operating Indicators and Ratios - Continued

Operating and Performance Ratios - Continued:

	BKD KS CAH Median	BKD KS CAH Median	2018	2017	2016	2018-2017 % Change	2017-2016 % Change
Patient days							
Acute			89	88	39	1%	126%
Swing-bed			534	148	244	261%	-39%
Other Long-Term Care			8,881	7,842	8,363	13%	-6%
Rural Health Clinic Visits			2,101	2,167	2,925	-3%	-26%
			11,605	10,245	11,571	13%	-11%
Net patient service revenue per patient day/LTC day/RHC visit							
Salaries and wages			\$ 388	\$ 411	\$ 344	-6%	19%
Total operating expenses			\$ 2,855,411	\$ 2,566,298	\$ 2,595,222	11%	-1%
Salaries and wages as a % of total of operating expenses			\$ 6,556,462	\$ 6,070,875	\$ 5,367,488	8%	13%
Salaries and wages as a % of net patient revenue (labor ratio)			44%	42%	48%	1%	-6%
Full-time equivalents			63%	61%	65%	3%	-4%
Salaries and wages per full-time equivalent			70	63	66	11%	-5%
Operating margin			\$ 40,792	\$ 40,735	\$ 39,322	0%	4%
Operating earnings before depreciation margin			-41%	-39%	-31%	-2%	-8%
Change in net position - income (loss)			-36%	-35%	-26%	-1%	-9%
Total margin			\$ (581,361)	\$ (368,676)	\$ (12,834)	N/A	N/A
Total earnings before depreciation margin			-10%	-6%	0%	-4%	-6%
Tax support			-6%	-3%	3%	-3%	-6%
			20%	21%	21%	-1%	0%

Required Communications

Generally accepted auditing standards require the auditor to provide to those charged with governance additional information regarding the scope and results of the audit that may assist you in overseeing management's financial reporting and disclosure process. Below, we summarize these required communications.

Auditor's Responsibilities Under Auditing Standards Generally Accepted in the United States of America

An audit performed in accordance with auditing standards generally accepted in the United States of America is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this communication or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Area	Comments
Significant Accounting Policies Significant accounting policies are described in <i>Note 1</i> of the financial statements.	➡ There are no unusual accounting policies or accounting methods used by the Hospital.
Alternative Accounting Treatments	➡ No matters are reportable.
Management Judgments & Accounting Estimates Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. Areas involving significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates are listed in the adjacent comments section.	➡ See "Significant Estimates" section on page 3.

Area	Comments
Financial Statement Disclosures The areas listed in the adjacent comments section involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures.	<ul style="list-style-type: none"> ➤ Charity care ➤ GPHA Employee Benefits Trust ➤ Future change in accounting principle
Audit Adjustments During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments that, in its judgment, are required to prevent the financial statements from being materially misstated.	Areas in which adjustments were proposed include: <u>Proposed Audit Adjustments Recorded</u> <ul style="list-style-type: none"> ➤ See page 4 <u>Proposed Audit Adjustments Not Recorded</u> <ul style="list-style-type: none"> ➤ None
Auditor's Judgments About the Quality of the Hospital's Accounting Policies	<ul style="list-style-type: none"> ➤ No matters are reportable.
Disagreements with Management	<ul style="list-style-type: none"> ➤ No matters are reportable.
Consultation with Other Accountants	<ul style="list-style-type: none"> ➤ No matters are reportable.
Significant Issues Discussed with Management <u>Prior to Retention</u> <u>During the Audit Process</u>	<ul style="list-style-type: none"> ➤ No matters are reportable. ➤ No matters are reportable.
Difficulties Encountered in Performing the Audit	<ul style="list-style-type: none"> ➤ No matters are reportable.



Other Material Communications

Other material communications between management and us related to the audit include:

- Management representation letter (*Tab 2*)
- Deficiencies in internal control that are not considered to be significant deficiencies or material weaknesses (verbal communication)

Other Matters

GASB Issues New Lease Standard

Government Accounting Standards Board (GASB) Statement No. 87, *Leases* (GASB 87) provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly. GASB 87 is effective for financial statements for fiscal years beginning after December 15, 2019. Earlier application is encouraged. Governments will be allowed to transition using the facts and circumstances in place at the time of adoption, rather than retroactive to the time each lease was begun.

* * *

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Hospital and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

Wichita, Kansas
May 20, 2019

Grisell Memorial Hospital District No. 1

Independent Auditor's Report and Financial Statements

December 31, 2018 and 2017



Grisell Memorial Hospital District No. 1
December 31, 2018 and 2017

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Independent Auditor's Report

Board of Directors
Grisell Memorial Hospital District No. 1
Ransom, Kansas

We have audited the accompanying financial statements of Grisell Memorial Hospital District No. 1 as of December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise Grisell Memorial Hospital District No. 1's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the provisions of the Kansas Municipal Audit and Accounting Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Grisell Memorial Hospital District No. 1 as of December 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

BKD, LLP

Wichita, Kansas
May 20, 2019

Liabilities, Deferred Inflows of Resources and Net Position

	2018	2017
Current Liabilities		
Current maturities of capital lease obligations	\$ 126,139	\$ 98,892
Accounts payable	156,612	147,659
Accrued salaries	172,392	149,255
Accrued payroll taxes	64,610	60,731
Accrued benefits	246,277	272,686
Estimated amounts due to third-party payers	690,000	-
Total current liabilities	1,456,030	729,223
Capital Lease Obligations	406,672	66,312
Total liabilities	1,862,702	795,535
Deferred Inflows of Resources		
Property taxes	1,154,913	1,154,913
Net Position		
Net investment in capital assets	950,275	1,047,594
Restricted - expendable for		
Specific operating activities	24,245	24,171
Unrestricted	1,779,093	2,263,209
Total net position	2,753,613	3,334,974
Total liabilities, deferred inflows of resources and net position	\$ 5,771,228	\$ 5,285,422

Grisell Memorial Hospital District No. 1
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2018 – \$110,738; 2017 – -\$22,544	\$ 4,498,463	\$ 4,213,684
Other	<u>161,567</u>	<u>141,030</u>
Total operating revenues	<u>4,660,030</u>	<u>4,354,714</u>
Operating Expenses		
Salaries and wages	2,855,411	2,566,298
Employee benefits	853,984	808,279
Supplies and other	2,622,016	2,493,964
Depreciation	<u>225,051</u>	<u>202,334</u>
Total operating expenses	<u>6,556,462</u>	<u>6,070,875</u>
Operating Loss	<u>(1,896,432)</u>	<u>(1,716,161)</u>
Nonoperating Revenues (Expenses)		
Property taxes	1,203,269	1,197,415
Interest income	30,320	18,555
Noncapital grants and gifts	94,747	138,628
Interest expense	(13,315)	(7,513)
Gain on disposal of capital assets	<u>50</u>	<u>400</u>
Total nonoperating revenues	<u>1,315,071</u>	<u>1,347,485</u>
Decrease in Net Position	(581,361)	(368,676)
Net Position, Beginning of Year	<u>3,334,974</u>	<u>3,703,650</u>
Net Position, End of Year	<u><u>\$ 2,753,613</u></u>	<u><u>\$ 3,334,974</u></u>

Grisell Memorial Hospital District No. 1

Statements of Cash Flows Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 4,569,884	\$ 4,024,976
Payments to suppliers and contractors	(3,462,176)	(3,303,280)
Payments to employees	(2,858,683)	(2,540,719)
Other receipts, net	<u>161,567</u>	<u>141,030</u>
Net cash used in operating activities	<u>(1,589,408)</u>	<u>(1,677,993)</u>
Noncapital Financing Activities		
Property taxes supporting operations	1,203,269	1,220,457
Noncapital grants and gifts	<u>94,747</u>	<u>138,628</u>
Net cash provided by noncapital financing activities	<u>1,298,016</u>	<u>1,359,085</u>
Capital and Related Financing Activities		
Principal paid on capital lease obligations	(104,963)	(114,964)
Interest paid on capital lease obligations	(13,315)	(7,513)
Proceeds from disposal of capital assets	50	400
Purchase of capital assets	<u>(22,769)</u>	<u>(193,524)</u>
Net cash used in capital and related financing activities	<u>(140,997)</u>	<u>(315,601)</u>
Investing Activities		
Interest income received	30,320	18,555
Change in certificates of deposit	(8,602)	(4,910)
Change in noncurrent investments	<u>(15,414)</u>	<u>125,364</u>
Net cash provided by investing activities	<u>6,304</u>	<u>139,009</u>
Decrease in Cash	(426,085)	(495,500)
Cash, Beginning of Year	<u>598,317</u>	<u>1,093,817</u>
Cash, End of Year	<u><u>\$ 172,232</u></u>	<u><u>\$ 598,317</u></u>
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 847,004	\$ 578,939
Cash in noncurrent cash	<u>15,228</u>	<u>19,378</u>
	<u><u>\$ 862,232</u></u>	<u><u>\$ 598,317</u></u>

Grisell Memorial Hospital District No. 1
Statements of Cash Flows (Continued)
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of Operating Loss to Net Cash		
Used in Operating Activities		
Operating loss	\$ (1,896,432)	\$ (1,716,161)
Depreciation	225,051	202,334
Provision (credit) for uncollectible accounts	110,738	(22,544)
Changes in operating assets and liabilities		
Patient accounts receivable, net	(403,158)	27,400
Estimated amounts due from and to third-party payers	363,841	(193,564)
Supplies	4,255	(11,457)
Prepaid expenses and other current assets	(3,263)	(22,104)
Accounts payable and accrued expenses	<u>9,560</u>	<u>58,103</u>
Net cash used in operating activities	<u>\$ (1,589,408)</u>	<u>\$ (1,677,993)</u>
Noncash Investing, Capital and Financing Activities		
Capital lease obligations incurred for capital assets	\$ 472,570	\$ 37,783

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2018 and 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Grisell Memorial Hospital District No. 1 (Hospital), located in Ransom, Kansas, is organized and operating under Kansas law and is governed by a Board of Directors. The Hospital operates a hospital which provides acute and long-term care services and operates outpatient clinics.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated or voluntary nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. There are no cash equivalents for the years ended December 31, 2018 and 2017.

Budgetary Principles

The Hospital is required by state statutes to adopt an annual budget for its general funds on or before August 25 for the ensuing year. The Hospital's Board of Directors may amend the budget by transferring budgeted amounts from one object or purpose to another within the same fund. Expenditures may not legally exceed the total amount of the adopted budget of individual funds.

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2018 and 2017

Property Taxes

The Hospital received approximately 20% and 21% of its financial support from property taxes in 2018 and 2017, respectively. One hundred percent of these funds were used to support operations in both years.

In accordance with governing state statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year tax basis and become a lien on the property on November 1 of each year. The county treasurer is the tax collection agent for all taxing entities within the County. Property owners have the option of paying one-half or the full amount of the taxes levied on or before December 20 during the year levied with the balance to be paid on or before May 10 of the ensuing year. State statutes prohibit the county treasurer from distributing taxes collected in the year levied prior to January 1 of the ensuing year. Consequently, for revenue recognition purposes, the taxes levied during the current year are not due and receivable until the ensuing year. At December 31, such taxes are a lien on the property and are recorded as property taxes receivable, net of anticipated delinquencies, with a corresponding amount recorded as deferred property tax revenue on the balance sheets.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Noncurrent Cash and Certificates of Deposit and Investment Income

Noncurrent cash and certificates of deposit include 1) funds internally designated by the Board of Directors to be used for physician recruitment and replacement of capital assets or for the purchase of additional capital assets and 2) funds externally restricted by donors and grantors for student scholarships/loans and other specific purposes. The internally designated funds may be used for other purposes by action of the Board of Directors. Noncurrent cash and certificates of deposit consist of certificates of deposit, which are carried at amortized cost, and savings accounts.

Investment income includes interest income.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or net realizable value.

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2018 and 2017

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Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2018 and 2017

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	8-15 years
Buildings	10-40 years
Fixed equipment	5-20 years
Moveable equipment	5-20 years

Capital Asset Impairment

The Hospital evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss.

No asset impairment was recognized during the years ended December 31, 2018 and 2017.

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off, or in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay rates in effect at the balance sheet date.

Deferred Inflows of Resources

The Hospital reports an acquisition of net position that is applicable to a future reporting period as deferred inflows of resources in a separate section of its balance sheets. Deferred inflows of resources consist of property taxes levied against members of the tax district.

Net Position

Net position of the Hospital is classified in three components. Net investment in capital assets, consist of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase of those assets. Restricted expendable net position represents noncapital assets that must be used for a particular purpose as specified by grantors or donors external to the Hospital. Unrestricted net position represents remaining assets less remaining liabilities that do not meet the above conditions.

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2018 and 2017

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As an essential government entity, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records (EHR) technology. Critical access hospitals (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2018 and 2017

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare. The Hospital is recognized as a CAH. Under CAH rules, inpatient acute care and skilled swing-bed and certain outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of allowable cost subject to certain limitations. Other outpatient services related to Medicare beneficiaries are paid based on fee schedules and cost reimbursement methodologies, subject to certain limitations. The Hospital is reimbursed for most services at tentative rates with final settlement determined after submission of an annual cost report by the Hospital and audits thereof by the Medicare administrative contractor.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed on a prospective payment methodology, which includes a hospital specific add-on percentage based on prior filed cost reports. The add-on percentage may be rebased at some time in the future. Services rendered for long-term care facility residents are reimbursed at a prospective rate, with annual cost reports submitted to the Medicaid program. Effective July 1, 2016, rates are computed using an average of the three most recent filed calendar cost reports and changes in the Medicaid resident case mix. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 78% and 74% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2018 and 2017, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined case rates and discounts from established charges and prospectively determined daily rates.

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2018 and 2017

Note 3: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Kansas; bonds of any city, county, school district or special road district of the state of Kansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At December 31, 2018 and 2017, respectively, none of the Hospital's bank balances of \$2,294,700 and \$2,020,631 were exposed to custodial credit risk.

Summary of Carrying Values

The carrying values of deposits shown above are included in the balance sheets as follows:

	2018	2017
Cash	\$ 847,004	\$ 578,939
Certificates of deposit	723,500	714,898
Noncurrent cash and certificates of deposit	704,638	693,374
	<u>\$ 2,275,142</u>	<u>\$ 1,987,211</u>

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31 consisted of:

	2018	2017
Medicare	\$ 469,061	\$ 138,549
Medicaid	123,485	125,583
Blue Cross	56,263	21,700
Other third-party payers	32,762	76,340
Self-pay	281,394	194,375
	<u>962,965</u>	<u>556,547</u>
Less allowance for uncollectible accounts	<u>(209,950)</u>	<u>(95,952)</u>
	<u>\$ 753,015</u>	<u>\$ 460,595</u>

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2018 and 2017

Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2018 and 2017, was:

	2018			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 4,000	\$ -	\$ -	\$ 4,000
Land improvements	45,537	-	-	45,537
Buildings	1,654,994	224,073	-	1,879,067
Fixed equipment	1,356,425	-	-	1,356,425
Moveable equipment	933,586	271,266	(21,781)	1,183,071
	<u>3,994,542</u>	<u>495,339</u>	<u>(21,781)</u>	<u>4,468,100</u>
Less accumulated depreciation				
Land improvements	44,400	803	-	45,203
Buildings	1,368,044	51,158	-	1,419,202
Fixed equipment	661,444	105,460	-	766,904
Moveable equipment	707,856	67,630	(21,781)	753,705
	<u>2,781,744</u>	<u>225,051</u>	<u>(21,781)</u>	<u>2,985,014</u>
Capital Assets, Net	<u>\$ 1,212,798</u>	<u>\$ 270,288</u>	<u>\$ -</u>	<u>\$ 1,483,086</u>

	2017			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 4,000	\$ -	\$ -	\$ 4,000
Land improvements	45,537	-	-	45,537
Buildings	1,505,155	179,642	(29,803)	1,654,994
Fixed equipment	1,347,067	12,041	(2,683)	1,356,425
Moveable equipment	889,151	44,435	-	933,586
Construction in proces	4,811	-	(4,811)	-
	<u>3,795,721</u>	<u>236,118</u>	<u>(37,297)</u>	<u>3,994,542</u>
Less accumulated depreciation				
Land improvements	43,597	803	-	44,400
Buildings	1,351,293	46,554	(29,803)	1,368,044
Fixed equipment	560,072	104,055	(2,683)	661,444
Moveable equipment	656,934	50,922	-	707,856
	<u>2,611,896</u>	<u>202,334</u>	<u>(32,486)</u>	<u>2,781,744</u>
Capital Assets, Net	<u>\$ 1,183,825</u>	<u>\$ 33,784</u>	<u>\$ (4,811)</u>	<u>\$ 1,212,798</u>

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2018 and 2017

Note 6: Capital Lease Obligations

Capital lease obligation activity for the years ended December 31, 2018 and 2017, was:

2018					
	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year
Capital lease obligations	\$ 165,204	\$ 472,570	\$ (104,963)	\$ 532,811	\$ 126,139

2017					
	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year
Capital lease obligations	\$ 242,385	\$ 37,783	\$ (114,964)	\$ 165,204	\$ 98,892

A schedule of the cost and accumulated depreciation on equipment under capital lease at December 31, 2018 and 2017, is as follows:

	2018	2017
Fixed and moveable equipment	\$ 1,672,199	\$ 1,237,412
Accumulated depreciation	(650,474)	(522,362)
	<u>\$ 1,021,725</u>	<u>\$ 715,050</u>

The following is a schedule by year of future minimum lease payments under capital lease including interest rates of 2.75% to 6.00% together with the present value of the future minimum lease payments:

Year Ending December 31,	
2019	\$ 155,440
2020	87,463
2021	87,471
2022	83,919
2023	83,920
2024 - 2025	<u>142,958</u>
Total minimum lease payments	641,171
Less amount representing interest	<u>108,360</u>
Present value of future minimum lease payments	<u>\$ 532,811</u>

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2018 and 2017

Note 7: Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 8: Charity Care

The costs of charity care provided under the Hospital's charity care policy were \$0 and \$10,944 for 2018 and 2017, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Note 9: Pension Plan

The Hospital maintains a contributory defined contribution pension plan for all eligible employees. Eligibility is established by all employees 18 years of age or older who have completed one year of service. The plan provides elective employee contributions of 2.5% of the first \$16,000 of annual compensation and 5% of annual compensation in excess of \$16,000. Matching employer contributions are computed at 5% of the first \$16,000 of annual compensation and 10% of annual compensation in excess of \$16,000. The plan is funded for past service on an installment basis over the remaining duration of employment from the effective date of the plan to the employee's normal retirement date. Benefits begin to vest after one year of service with 100% vesting after five years of service. All funds contributed by the Hospital, which are not vested, will be returned to the plan and remain in the plan to reduce future employer contributions to the plan. Contributions actually made by plan members totaled \$135,624 and \$135,965 in 2018 and 2017, respectively. Hospital contributions totaled \$172,858 and \$170,493 in 2018 and 2017, respectively.

Note 10: Management/Services Agreement

The Board of Directors of the Hospital has contracted with Great Plains Health Alliance, Inc. (GPHA) for various services, including management, data processing and accounting services. The terms of the agreements vary from one to seven years and can be canceled with 60 days' notice. The agreements can be renewed after the initial term has expired on a year-to-year basis. Fees incurred for the various services provided by GPHA to the Hospital for the years ended December 31, 2018 and 2017, were \$468,313 and \$416,464, respectively. Amounts payable to GPHA at December 31, 2018 and 2017, totaled \$32,937 and \$35,515, respectively.

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2018 and 2017

Note 11: Compliance with Budgetary Statutes

Kansas statutes require that fixed budgets be legally adopted for all enterprise and debt service funds. Budgets are prepared utilizing the modified accrual basis of accounting. Kansas statutes prohibit creating expenditures in excess of the total amount of the adopted budget of expenditures, which is prepared on a calendar year basis. Calendar year budgeted expenditures are compared to the Hospital's enterprise fund, which are on an annualized calendar year basis as follows:

	2018		
	Actual	Budget	Variance Under (Over)
General Fund			
Revenues			
Taxes	\$ 1,203,269	\$ 1,227,263	\$ 23,994
Patient related revenues	4,609,201	4,340,095	(269,106)
Interest income	30,320	15,000	(15,320)
Other	256,314	187,102	(69,212)
Total revenues	6,099,104	5,769,460	(329,644)
Expenses			
Patient related expenses	6,331,411	5,993,575	(337,836)
Interest expense	13,315	-	(13,315)
Capital outlay	495,339	165,000	(330,339)
Total expenses	6,840,065	6,158,575	(681,490)
Deficit of revenues over expenses	\$ (740,961)	\$ (389,115)	\$ 351,846

	2017		
	Actual	Budget	Variance Under (Over)
General Fund			
Revenues			
Taxes	\$ 1,197,415	\$ 1,201,382	\$ 3,967
Patient related revenues	4,191,140	4,056,147	(134,993)
Interest income	18,555	13,130	(5,425)
Other	279,658	110,972	(168,686)
Total revenues	5,686,768	5,381,631	(305,137)
Expenses			
Patient related expenses	5,868,541	5,440,627	(427,914)
Interest expense	7,513	-	(7,513)
Capital outlay	236,118	295,000	58,882
Total expenses	6,112,172	5,735,627	(376,545)
Deficit of revenues over expenses	\$ (425,404)	\$ (353,996)	\$ 71,408

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2018 and 2017

The following reconciliation is presented to provide a correlation between the different basis of accounting for reporting in accordance with accounting principles generally accepted in the United States of America and for reporting on the budgetary basis:

	2018	2017
Decrease in net position - financial basis	\$ (581,361)	\$ (368,676)
Depreciation	225,051	202,334
Gain on disposal of capital assets	(50)	(400)
Provision (credit) for uncollectible accounts	110,738	(22,544)
Capital outlay	<u>(495,339)</u>	<u>(236,118)</u>
Deficiency of revenues over expenses	<u>\$ (740,961)</u>	<u>\$ (425,404)</u>

Note 12: GPHA Employee Benefits Trust

In response to amendments to Kansas Insurance Code related to multi-employer welfare arrangements, GPHA restated its existing voluntary employees' beneficiary association (VEBA) trust as described in Section 501(c)(9) of the Internal Revenue Code, which is named the Great Plains Employee Benefits Trust (the Trust). The Trust is governed by its Board of Trustees. One of the purposes of the Trust is to provide the self-funded GPHA Employee Benefits Plan (the Plan) for its member organizations and their participating employees. The Hospital is a member organization in the Trust and substantially all of the Hospital's employees and their dependents are eligible to participate in the Plan. The Plan provides medical benefits, prescription drug benefits and dental benefits for a benefit period that runs each year from July 1 through June 30. The participant's monthly premiums are determined by the Trust. The Trust may change the premiums from time to time. The Plan agreement specifies that the Trust will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of stop-loss amounts. The Trust accrues a provision for self-insured employee benefit claims including both claims reported and claims incurred but not yet reported. If a net deficit position is anticipated by the Trust after consideration of the accrued provision, the Trust will administer insurance assessments to its member organizations based on a systematic allocation method. No insurance assessments were necessary for 2018 and 2017. The Hospital terminated their participation in this plan effective June 30, 2018.

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2018 and 2017

Note 13: Future Change in Accounting Principle

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases* (GASB 87) provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly. GASB 87 is effective for financial statements for fiscal years beginning after December 15, 2019. Earlier application is encouraged. Governments will be allowed to transition using the facts and circumstances in place at the time of adoption, rather than retroactive to the time each lease was begun. The Hospital is evaluating the impact the statement will have on the financial statements.

Grisell Memorial Hospital District No. 1

*210 South Vermont Avenue
Ransom, Kansas 67572*

May 20, 2019

BKD, LLP

Certified Public Accountants

1551 North Waterfront Parkway, Suite 300

Wichita, Kansas 67206

We are providing this letter in connection with your audits of our financial statements as of and for the years ended December 31, 2018 and 2017. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America and the Kansas Municipal Audit and Accounting Guide. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated November 5, 2018, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and the Kansas Municipal Audit and Accounting Guide except that the supplementary information as required by the Governmental Accounting Standards Board (GASB), consisting of management's discussion and analysis, has not been prepared.
2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.

5. We have provided you with:
 - (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.
 - (b) Additional information that you have requested from us for the purpose of the audit.
 - (c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - (d) All minutes of directors' meetings held through the date of this letter.
 - (e) All significant contracts and grants.
 - (f) All peer review organizations, fiscal intermediary and third-party payer reports and information.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. We have informed you of all current risks of a material amount that are not adequately prevented or detected by Hospital procedures with respect to:
 - (a) Misappropriation of assets.
 - (b) Misrepresented or misstated assets or liabilities.
8. We understand the potential penalties for failure to disclose reportable tax transactions to the taxing authorities and have fully disclosed to BKD any and all known reportable tax transactions.
9. We have no knowledge of any known or suspected:
 - (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.
 - (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.
 - (c) Communications from regulatory agencies, governmental representatives, employees or others concerning investigations or allegations of noncompliance with laws and regulations, deficiencies in financial reporting practices or other matters that could have a material adverse effect on the financial statements.
10. We have no knowledge of any allegations of fraud or suspected fraud affecting the Hospital received in communications from employees, customers, regulators, suppliers or others.

11. We have disclosed to you the identity of the Hospital's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand that the term related party refers to an affiliate; principal owners, management, and members of their immediate families, subsidiaries accounted for by the equity method; and any other party with which the Hospital may deal if the Hospital can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with, the Hospital.
12. Except as reflected in the financial statements, there are no:
 - (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.
 - (b) Material transactions omitted or improperly recorded in the financial records.
 - (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.
 - (d) Events occurring subsequent to the balance sheet date through the date of this letter requiring adjustment or disclosure in the financial statements.
 - (e) Agreements to purchase assets previously sold.
 - (f) Restrictions on cash balances or compensating balance agreements.
 - (g) Guarantees, whether written or oral, under which the Hospital is contingently liable.
13. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
14. We have no reason to believe the Hospital owes any penalties or payments under the Employer Shared Responsibility Provisions of the *Patient Protection and Affordable Care Act* nor have we received any correspondence from the IRS or other agencies indicating such payments may be due.
15. We are not aware of any pending or threatened litigation or claims whose effects should be considered when preparing the financial statements. We have not sought or received attorney's services related to pending or threatened litigation or claims during or subsequent to the audit period. Also, we are not aware of any litigation or claims, pending or threatened, for which legal counsel should be sought.
16. We have informed you of all pending or completed investigations by regulatory authorities of which we are aware. There are no known circumstances that could jeopardize the Hospital's participation in the Medicare or other governmental health care programs.

17. Adequate provisions and allowances have been accrued for any material losses from:
 - (a) Uncollectible receivables.
 - (b) Medicare/Medicaid and other third-party payer contractual, audit or other adjustments.
 - (c) Reducing obsolete or excess inventories to estimated net realizable value.
 - (d) Purchase commitments in excess of normal requirements or above prevailing market prices.
18. Except as disclosed in the financial statements, the Hospital has:
 - (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.
 - (b) Complied with all aspects of contractual agreements, for which noncompliance would materially affect the financial statements.
19. With respect to the Hospital's possible exposure to past or future medical malpractice assertions:
 - (a) We have disclosed to you all incidents known to us that could possibly give rise to an assertion of malpractice.
 - (b) All known incidents have been reported to the appropriate medical malpractice insurer and are appropriately considered in our malpractice liability accrual.
 - (c) There is no known lapse in coverage, including any lapse subsequent to the fiscal year-end, that would result in any known incidents being uninsured.
 - (d) Management does not expect any claims to exceed malpractice insurance limits.
20. With regard to deposit and investment activities:
 - (a) All deposit, repurchase and reverse repurchase agreements and investment transactions have been made in accordance with legal and contractual requirements.
 - (b) Disclosures of deposit and investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.
 - (c) We understand that your audit does not represent an opinion regarding the enforceability of collateral pledges.

21. With respect to any nonattest services you have provided us during the year, including drafting of the financial statements and related notes:
 - (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.
 - (b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.
 - (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.
 - (d) We have evaluated the adequacy of the services performed and any findings that resulted.
22. We are an organization exempt from income tax under Section 115 of the Internal Revenue Code and a similar provision of state law and, except as disclosed in the financial statements, there are no activities that would jeopardize our tax-exempt status or subject us to income tax on unrelated business income or excise tax on prohibited transactions and events.
23. The financial statements disclose all significant estimates known to us. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
24. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.
25. Billings to third-party payers comply in all material respects with applicable coding guidelines, laws and regulations. Billings reflect only charges for goods and services that were medically necessary; properly approved by regulatory bodies, if required; and properly rendered.
26. With regard to cost reports filed with Medicare, Medicaid or other third parties:
 - (a) All required reports have been properly filed.
 - (b) Management is responsible for the accuracy and propriety of those reports.
 - (c) All costs reflected on such reports are appropriate and allowable under applicable reimbursement rules and regulations and are patient-related and properly allocated to applicable payers.
 - (d) The reimbursement methodologies and principles employed are in accordance with applicable rules and regulations.

- (e) All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report.
 - (f) Recorded allowances for third-party settlements are necessary and are based on historical experience or new or ambiguous regulations that may be subject to differing interpretations.
27. With regard to the Medicaid Electronic Health Record (EHR) Incentive Program:
- (a) All required attestation reports have been properly filed.
 - (b) Management is responsible for the accuracy and propriety of those reports.
 - (c) All required core objectives have been met or we are reasonably assured of meeting them.
 - (d) The required number of menu set objectives have been met or we are reasonably assured of meeting them.
 - (e) We are not aware of any issues related to meaningful use as defined under the EHR Incentive Program that would make the Hospital not eligible to receive the incentive payments, including any payments already received.
 - (f) The Hospital has elected to recognize EHR revenue using the immediate revenue recognition option.
28. We acknowledge the current protracted economic decline continues to present difficult circumstances and challenges for the health care industry. Hospitals are facing declines in cash reserves, declines in contributions, constraints on liquidity and difficulty obtaining financing. We understand the values of the assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments to asset values and allowances for patient accounts receivable that could negatively impact the Hospital's ability to maintain sufficient liquidity. We acknowledge that you have no responsibility for future changes caused by the current economic environment and the resulting impact on the Hospital's financial statements. Further, management and the Board are solely responsible for all aspects of managing the Hospital, including reviewing allowances for uncollectible amounts and evaluating capital needs and liquidity plans.



David Caudill, CEO



Joshua Enslow, CFO